

## Message Text

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ACTION NEA-10

INFO OCT-01 ISO-00 IGA-01 AID-05 TRSE-00 FS-01 ABF-01

OMB-01 L-03 EB-07 FRB-03 SS-15 SP-02 NSC-05 CIAE-00

INR-07 NSAE-00 AGR-05 PA-01 PRS-01 USIA-06 /075 W

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R 081131Z JUL 75

FM AMEMBASSY COLOMBO

TO SECSTATE WASHDC 3010

C O N F I D E N T I A L COLOMBO 2143

E.O. 11652 GDS

TAGS: EAID, CE

SUBJ: RECENT DEVELOPMENT RE PL 480 RUPEE ISSUE

REF: A. COLOMBO 1940, B. COLOMBO 1997

1. BEGIN SUMMARY: PL 480 ISSUE IS STILL ALIVE BUT LESS SO. DURING RECENT WEEKS PRIME MINISTER HAS SENT STRONG LETTER TO FINANCE MINISTER PERERA. AMBASSADOR DISCUSSED PROBLEM OVER LUNCH WITH PERERA AND SUGGESTED EARLY MEETING WITH MINISTRY-OF FINANCE TO TRY TO RESOLVE OUTSTANDING ISSUES. QUESTION HAS AGAIN ARISEN IN PARLIAMENT BUT PERERA DID NOT REPEAT HIS EARLIER CHARGES. PRIME MINISER BELIEVES LSSP IS STILL TRYING TO USE ISSUE AGAINST HER. END SUMMARY.

2. DEVELOPMENTS DURING PAST TWO WEEKS SUGGEST THAT PL 480 RUPEE ISSUE MAY BE COOLING OFF SOMEWHAT ALTHOUGH LEFTISTS WILL PROBABLY CONTINUE TO EXPLOIT IT FURTHER, BOTH IN ATTEMPT TO ERODE US-GSL RELATIONSHIP AND INDIRECTLY TO ATTACH PRIME MINISTER. FOLLOWING ARE RECENT HIGHLIGHTS:

3. EMBASSY INFORMED THAT SHORTLY AFTER FINANCE MINISTER N.M. PERERA'S RETURN TO ISLAND AND PRIME MINISTER'S RETURN FROM MEXICO CITY ON JUNE 25, PM SENT PERERA STRONG LETTER CRITICIZING HIS HANDLING PL 480 ISSUE. SHE ASKED THAT IN FUTURE HE CONSULT WITH HER BEFORE MAKING PUBLIC STATMENTS AND SHE REQUESTED PEREA TO  
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MONITOR BANK ACCOUNTS OF ALL (REPEAT ALL) FOREIGN EMBASSIES OPERATING IN SRI LANKA.

4. AFTER INFORMING MDFA SECRETARY JAYASIGHE IN ADVANCE, AMBASSADOR INVITED PERERA TO LUNCH JULY 1 IN EFFORT DAMPEN SITUATION AND EXPLAIN US VIEWS DIRECTLY TO HIM. AMBASSADOR REVIEWED RUPEE PROBLEM IN DETAIL, URGED PERERA TO DISCUSS ANY FURTHER QUESTIONS WITH US EMBASSY AND REITERATED USG DID NOT WANT TO BE DRAWN INTO SRI LANKA'S INTERNAL POLITICAL AFFAIRS OR BE CAUSE FOR STRAINS WITHIN UNITED FRONT GOVERNMENT.

5. WITHOUT DIRECTLY APOLOGIZING FOR HIS REMARKS, PERERA ACKNOWLEDGED PROBLEMS THEY HAD CREATED FOR USG AND SAID HE UNDERSTOOD WHY IT WAS NECESSARY FOR US TO PROTEST. HE ALLUDED TO PRIME MINISTER'S JUNE 3 STATEMENT IN PARLIAMENT THAT THERE HAD BEEN NO MISUSE OF PL 480 RUPEES AND DISMISSED HIS COMMENTS RE CIA (COLOMBO 2034) AS GENERALIZED REMARKS OF LITTLE IMPORTANCE. PRIMARY WEIGHT OF PERERA'S DEFENSE WAS THAT HIS STATEMENTS WERE ALL PART OF "THE POLITICAL GAME" AND SHOULD NOT BE TAKENTOO SERIOUSLY. AMBASSADOR REPLIED IT WAS IMPOSSIBLE FOR USG TO DISMISS PUBLIC REMARKS OF SENIOR GSL MINISTER WHICH TENDED TO UNDERCUT PRESENT GOOD BILATERAL RELATIONSHIP BETWEEN US AND GSL AND TO SOW SEEDS OF SUSPICION RE US MOTIVES ON PL 480 AND WITH REGARD TO CIA.

6. LOOKING TO FUTURE, AMBASSADOR TOLD PERERA US EMBASSY NOW HAD ONLY RS. 3 MILLION ON DEPOSIT AS CONTRASTED WITH OVER RS. 40 MILLION IN LATE 1960'S. ACCORDING OUR ESTIMATES, IT WAS UNLIKELY EMBASSY WOULD EVER ACCUMULATE MORE THAN TOTAL OF ABOUT RS. 9 MILLION AND BY 1980 WE WOULD PROBABLY BEGIN BUYING RUPEES FOR DOLLARS TO COVER EMBASSY OPERATING EXPENSES. CONSEQUENTLY, GSL SHOULD NOT BE OVERLY CONCERNED ABOUT IMPACT OF US RUPEE HOLDINGS ON ITS MONEY SUPPLY OR THEIR INFLATIONARY POTENTIAL. AMBASSADOR SUGGESTED THAT AT EARLY DATE HE SIT DOWN WITH PERERA OR PERERA'S REPRESENTATIVE TO TRY TO RESOLVE ISSUES RAISED IN EXCHANGE OF LETTERS OF MAY 14 AND JUNE 18.

7. ALTHOUGH LUNCH CONVERSATION WAS AMICABLE, PERERA MADE NO COMMITMENT TO DESIST FROM FURTHER PUBLIC STATEMENTS. NONETHELESS, WHEN PL 480 ISSUE CAME UP IN PARLIAMENT LATER SAME DAY (JULY 1) HE DID NOT REPEAT HIS ORIGINAL CHARGES. IN OBVIOUS EFFORT TO DRIVE FURTHER WEDGE BETWEEN PM AND N. M., OPPOSITION  
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MP'S W. DAHANAYAKE AND PRINS GUNASEKERA, RAISED DISCREPANCY BETWEEN PERERA'S CHARGES AND PRIMIN'S STATEMENT. MDFA DEPUTY MINISTER LAKSHMAN JAYAKODY, SPEAKING FOR ABSENT PM, SAID SHE DID NOT WISH TO ADD ANYTHING TO HER STATEMENT. PRESSED AS TO WHETHER HE ACCEPTED PRIME MINISTER'S STATEMENT, PERERA SAID THAT SINCE PM HAS ASKED HIM TO PROVIDE FURTHER INFO, HE DID NOT WISH TO CLOSE OFF QUESTION AT THIS TIME.

4. AT JULY 4 RECEPTION, AMB REPORTED TO PRIMIN ON HIS LUNCHEON WITH FINANCE MINISTER. SHE SEEMED SURPRISED PERERA

HAD ACCEPTED INVITATION AND WAS AMUSED WHEN TOLD PERERA HAD TRIED TO DISMISS HIS ALLEGATIONS AS PART OF POLITICAL GAME. PM SAID PERERA'S LANKA SAMA SAMAJA PARTY STILL CONTINUED TO TRY TO EXPLOIT SITUATION TO HER DISADVANTAGE. FOR EXAMPLE, RECENT (JUNE 29) ISSUE OF LSSP PAPER, JANASATHIYA, HAD CARRIED LONG ARTICLE ON PL 480, SAYING THAT PEOPLE WERE NOT PREPARED TO ACCEPT PM'S STATEMENT IN PARLIAMENT.

9. AS NEXT STEP, EMBASSY HOPES TO FOLLOW UP ON AMBASSADOR'S SUGGESTION TO PERERA THAT EARLY EFFORT BE MADE TO RESOLVE ISSUES CONTAINED IN RECENT EXCHANGE OF LETTERS WITH MINISTRY OF FINANCE. LAL LAYAWARDENA, ONE OF GSL'S MOST CAPABLE CIVIL SERVANTS, HAS BEEN APPOINTED FINANCE SECRETARY REPLACING COOREY. ONCE JAYWARDENA GETS SETTLED INTO HIS NEW JOB, WE WILL ATTEMPT TO OPEN DIALOGUE ON OUTSTANDING ISSUES AND PUT THEM IN DIPLOMATIC CHANNELS WHERE THEY BELONGED IN FIRST PLACE.  
VAN HOLLEN

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## Message Attributes

**Automatic Decaptioning:** X  
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**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
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**Draft Date:** 08 JUL 1975  
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**Disposition Approved on Date:**  
**Disposition Authority:** woolflhd  
**Disposition Case Number:** n/a  
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**Disposition Date:** 28 MAY 2004  
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